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**Audited Financial Statements of
the Office of D. C. Pensions
for Fiscal Years 2002 and 2001**

OIG-03-018

November 19, 2002



Office of Inspector General

The Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 19, 2002

**MEMORANDUM FOR MARY BETH SHAW, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM:

William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General for
Financial Management and Information
Technology Audits

SUBJECT:

Audited Financial Statements of the Office of
D.C. Pensions for Fiscal Years 2002
and 2001

I am pleased to transmit the audited financial statements of the Office of D.C. Pensions (ODCP) for Fiscal Years (FY) 2002 and 2001. The ODCP's financial statements were audited by KPMG LLP, an independent public accountant (IPA). The IPA issued the following reports which are included in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations

The IPA rendered an unqualified opinion on the ODCP's FY 2002 and 2001 financial statements. The Independent Auditors' Report on Internal Control over Financial Reporting contained no reportable conditions. In addition, the Independent Auditors' Report on Compliance with Laws and Regulations contained no instances of noncompliance.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment



U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Financial Statements

September 30, 2002 and 2001

(With Independent Auditor's Report Thereon)

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

FINANCIAL STATEMENTS

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OFFICE OF D.C. PENSIONS
Departmental Offices, U.S. Department of the Treasury

FY 2002 MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission Statement

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33 (111 Stat. 251, 712), as amended, by making timely and accurate Federal benefit payments associated with the District of Columbia Retirement Programs for police officers and firefighters, teachers, and judges.

I. Introduction

A. Statutory Basis

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) shall assume certain responsibilities for the District of Columbia (District) Pension Program, including investing fund assets and funding pension benefits. The Act was enacted August 5, 1997, with an effective date of October 1, 1997. To varying degrees, the U.S. Department of the Treasury (Treasury) is responsible for making benefit payments under three District retirement plans:

- Police Officers' and Firefighters' Retirement Plan;
- Teachers' Retirement Plan; and
- Judges' Retirement Plan.

The Federal Government is responsible for paying police officers', firefighters', and teachers' benefits based upon service accrued through June 30, 1997. The District is responsible for paying benefits earned after June 30, 1997. Split benefit payments apply to any retired police officers and firefighters, and teachers with service before and after June 30, 1997. The Federal Government is responsible for paying judges' benefits regardless of when service was accrued.

All benefit payments that are the responsibility of the Federal Government under the three District retirement programs are referred to herein as Federal Benefit Payments. Benefit payments for service accrued after June 30, 1997, to which an individual is entitled under the District's Replacement Plan, are referred to as District Benefit Payments.

B. Organizational Structure and Staffing

Treasury's Office of D.C. Pensions (the Office), within the Departmental Offices, is responsible for managing Treasury's responsibilities under the Act. Treasury's responsibilities involve a range of complex policy, technical and operational activities, including actuarial, audit, financial reporting, investment, benefits administration, information systems, legal, and procurement. The U.S. Office of Personnel Management (OPM), pursuant to an agreement with Treasury, serves as Treasury's benefits administration advisor. Under the agreement, OPM provides staff support and advice on benefits administration matters.

The D.C. Pensions Program is staffed in a matrix management arrangement comprised of the core program office within the Office of the Assistant Secretary for Management and Chief Financial Officer and supplemented by staff from other Treasury offices that provide expertise in the range of areas encompassed by the Act, such as the Office of the General Counsel, the Procurement Services Division, and the Office of the Deputy Assistant Secretary for Information Systems and Chief Information Officer. The immediate staff of the Office and other team members supporting the D.C. Pensions Program work together to accomplish Treasury's responsibilities under the Act and achieve the goals and objectives of the D.C. Pensions Program. As of September 30, 2002, twenty-three Treasury positions were funded from the District of Columbia Federal Pension Liability Trust Fund (Trust Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

II. D.C. Pensions Program

A. Strategic Goals, Performance Measures and Results

As outlined below, the Office established these strategic goals under the Department's strategic goals to "Manage the Federal Government's Accounts." The strategic goals are:

- Ensure all Federal Benefit Payments are accurate and timely;
- Ensure the effective management and/or investment of funds in the custody of the Treasury;
- Improve customer satisfaction; and
- Improve employee satisfaction.

To meet these goals, specific targets and measures were established to assess the success of the D.C. Pensions Program, as presented in the following table.

B. Fiscal Year 2002 Performance Results and Fiscal Years 2003 - 2004 Strategic Goals and Performance Measures

Manage the Government's Finances				FY 2002 Performance Results
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	
Manage the Federal Government's Accounts	Ensure all Federal benefit payments are accurate and timely	Funds are available to pay benefits and expenses when due.	Provide funds timely to the District to make payments monthly. Maintain adequate cash balances and maturing securities to meet monthly obligations.	During FY 2002, Treasury funded benefit payments and refunds of employee contributions from the assets of the Trust and Judicial Retirement Funds on all due dates requested by the District. During FY 2002, Treasury paid \$446 million in benefit payments and refunds of employee contributions. This was achieved in FY 2002 with one exception. In August 2002, \$41 thousand of the 12% bond maturing 8/15/2013 was redeemed to meet a cash shortfall in the Judicial Retirement Fund. The shortfall was caused by an increase in administrative expenses, primarily contractor payments. Requirements for Release 1, which covers the Judges' Retirement Plan, were validated and coding was completed. Testing of the application and production environment was completed to enable initiation of parallel operations of the replacement pension/payroll system (STAR) with the current system in the fall of 2002. January 2003 is the target date for issuing the first payments to the judges from the new system.
	Ensure the effective management and/or investment of funds in the custody of the Treasury	Implement a pension/payroll system to improve processing time and accurately determine Federal benefit payments. Funds are invested in accordance with Treasury policies.	Invest all available funds promptly. Review and update investment policies annually. Auditors issue an unqualified opinion.	All available cash was fully invested in FY 2002 with one exception. In November 2001, \$16 million in interest received in Supplemental Fund was not invested for 3 weeks after receipt due to an administrative oversight at the Bureau of the Public Debt (BPD). The Office reviewed investment policies for the Trust Fund, the Supplemental Fund, and the Judicial Retirement Fund and provided revised investment guidance to BPD in September 2002 for the FY 2002 appropriation, and subsequent FY 2002 and FY 2003 investments. In FY 2002, timely and accurate financial statements were prepared for FY 2001. An independent auditor provided an unqualified opinion on the Offices' financial statements for FY 2001.
		Provide actuarial information to update investment strategies and determine annual deposits to the Supplemental and Judicial Retirement Funds.	Issue actuarial report on timeline to meet audit report requirements.	During FY 2002, the enrolled actuary issued a report as of October 1, 2001, providing the amount of the deposits to the Supplemental and Judicial Retirement Funds and data necessary to manage, on a timely basis, the investment of funds. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Based on actuarial information and analysis of administrative expenses, Treasury deposited \$251.7 million and \$6.7 million, respectively, into these funds and immediately invested these amounts in non-marketable Treasury securities, as required by the Act.

Manage the Government's Finances					FY 2002 Performance Results
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure		
		Achieve goals of President's Management Agenda.	Provide financial information timely and integrated with operational strategies and resource planning. Implement corrections identified in FMFIA report and other reviews. Correct erroneous benefit payments as identified.		The Office's financial information was submitted timely and was integrated with resource planning. Detailed expense reports are used to manage the operations and for resource planning. The Office completed a large number of benefits administration corrections and achieved the closure of the FMFIA weakness in the District's benefits administration. The District's information technology weakness is being reclassified to a second-tier weakness. No new weaknesses have been identified. This was accomplished. A detailed discussion appears in Section II.E. below.
		Implement a pension payroll system to improve processing time and accurately determine Federal benefit payments.	Implement automated system and validate accurate performance.		Requirements for Release 1, which covers the Judges' Retirement Plan, were validated and coding was completed. Testing of the application and production environment was completed to enable initiation of parallel operations of STAR with the current system in September 2002. January 2003 is the target date for issuing the first payments to the judges from the new system.
	Improve customer satisfaction	Provide annuitants with retirement plan information that is clear, concise and accurate.	Continue to maintain and provide accurate and current information.		Revision of the summary plan descriptions (SPDs) for each of the three retirement plans was completed in July 2002. The SPDs were mailed in October to all annuitants of the three plans and to active employees who are covered by these plans.
		Develop a comprehensive customer service plan.	Implement a customer service plan through a comprehensive outreach to stakeholders and annuitants. Develop customer service standards for the benefits administrator.		The Office worked collaboratively with employee and retiree representatives on a regular basis to ensure consideration of customer needs and preferences. The Office focused on improvement of customer service in FY 2002 through error corrections and improved communications with all stakeholders. A customer service plan is being developed for the System to Administer Retirement (STAR) Release 1. It will form the basis for additional customer service plans.

Manage the Government's Finances				
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	FY 2002 Performance Results
Continue to Build a Strong Institution	Improve employee satisfaction	Develop staff through performance plans supporting the Office's goals.	Each employee has current plans and goals consistent with Office goals. Performance reviews are conducted quarterly and feedback is provided timely.	Each Office employee has a current plan and goals consistent with Office goals. Performance reviews are conducted quarterly and feedback is provided timely.

C. Replacement of the Current D.C. Pension/Payroll System

In January 2000, the Office issued a task order to a contract systems integrator to develop a pension system and recommended changes to the District's business processes to leverage the benefits of automation. The Office will implement the PeopleSoft payroll module in addition to the pension module to ensure that annuitants will be paid accurately and on time. In December 2001, the Bureau of the Public Debt (BPD) agreed to host the integrated pension/payroll system and to provide administrative accounting and payroll services.

In August 2001, the Office awarded a contract to perform a Risk Assessment and Independent Validation and Verification (IV&V) of the system development project. The contractor will continue to assist in identifying risks and advising on mitigation strategies. In addition, the contractor is helping to ensure that the system will meet specified program requirements and that the system development follows a rigorous, established process to ensure success. The Office has been addressing the risks identified in the IV&V and developing a risk management process to address IV&V issues and recommendations to ensure a successfully deployed system.

In part because of delays in development of a D.C. Public Schools payroll system, which would interface with the D.C. Pensions System to Administer Retirement (STAR), and delays in applying longevity increases to annuities of retired D.C. police officers, the Office adopted a multiple release strategy in April 2002. Work began immediately to frame the legal rules and business procedures to implement the Judges' Retirement Plan in Release 1. A Requirements Summit incorporated input from the Office, BPD, the Office of the General Counsel, and the District's Office of the Chief Financial Officer and the CAPPS Enterprise Office. STAR will provide end-to-end functionality that includes the determination of eligibility, calculation of benefits, accurate and timely payments to annuitants and survivors, and the secure collection, maintenance and transmission of pension data and transactions.

In July 2002, the coding for over 880 system requirements covering pension, payroll, technical and policy decisions was completed. Testing of the application and production environment was completed in August 2002. Parallel operations of STAR and the District's current system began in September 2002. The target date for the first payments to be issued to the judges from the new system is January 2003.

D. Customer Service

The Office is committed to providing excellent customer service. To this end, the Office has forged relationships and worked collaboratively with the District's Office of Pay and Retirement Services (OPRS), the District's human resources offices, employee unions, and the District of Columbia Retirement Board (DCRB). During FY 2002, the Office focused on error corrections, as discussed below, and improved communications among stakeholders.

The Office revised summary plan descriptions (SPDs) of the retirement plans for the police officers and firefighters, teachers, and judges. Under the laws governing the District retirement plans, the SPDs for the retirement plans for police officers and firefighters, and teachers must be updated and provided to participants every five years. The SPDs must reflect the current laws and regulations governing the retirement plans. The SPDs were last updated and published in

1997. The Office determined that it should assume responsibility for preparing SPDs for Federal Benefit Payments and, in coordination with the DCRB, revised and updated the SPDs for the three retirement plans. The revised SPDs were completed in July 2002. To ensure that the SPDs are accurate, user friendly and in easily understood language, Treasury conducted a number of focus groups with annuitants and active employees and incorporated comments from them in the final SPDs. All current plan participants (active and retired) have received copies of the SPDs.

The Office completed a number of initiatives with OPRS to improve the delivery of customer service by their office. Files and other information were reorganized so that annuitants' requests for information can be answered more quickly and fully. General computer skills were upgraded resulting in improved access to automated information. Coaching sessions were held on topics such as handling telephone inquiries.

E. Correction of Erroneous Payments

The Office determined that the District has been using incorrect methods to calculate monthly Federal Benefit Payments to some annuitants. Some of the errors resulted in overpayments and some of the errors resulted in underpayments. The Office developed a strategy to correct both the overpayments and the underpayments. The Office analyzed legal and policy bases for benefit determinations and identified a number of legal and administrative errors and issues in the following areas: (1) application of statutory cost-of-living adjustment (COLA) provisions for judges; (2) application of statutory purchase of service provisions (judges); (3) application of statutory military service provision (police officers and firefighters); (4) application of statutory minimum survivor annuity (police officers and firefighters); (5) application of COLA proration provision (police officers and firefighters and teachers); (6) application of statutory COLA for child survivors (teachers); (7) application of statutory survivor benefit elections (teachers); and (8) application of statutory longevity pay for certain police officers.

1. Application of Statutory COLA Provisions (Judges)

In the course of administering the Judges Retirement Program, the Office discovered systemic incorrect payments. The most significant and systemic error related to application of statutory COLAs to benefit payments. The District did not implement amended COLA requirements for the judges for 20 years -- from enactment in 1980 and in 1981 until September 2000, when Treasury directed the District to properly apply the amended COLA requirements for newly retiring judges. Pursuant to Treasury's direction, since September 2000, the District has been correctly calculating COLAs for retiring judges.

Beginning with the payments made in January 2002, the Office recalculated and corrected all affected benefit payments going forward. The corrections resulted in future savings to Treasury of approximately \$2.9 million calculated on a present value basis and in a net decrease of approximately \$20,000 in monthly annuity payments for annuitants. These corrections affect almost all of the 68 retired judges and survivors. The Office paid past net underpayments. Consistent with Treasury debt collection regulations in 31 C.F.R. Part 29 Subpart E, Treasury resolved the overpayments that occurred prior to January 2002. Treasury does not foresee any material impact on the Office's financial statements.

2. Application of Statutory Purchase of Service Provisions (Judges)

The Office determined that the District has been using incorrect methods to calculate the cost for judges to purchase credit for non-judicial service. The judges' plan allows judges to elect to receive service credit for certain military and civilian service with the U.S. Government. If a judge received a lump sum payout from another civilian retirement plan for service that is creditable, the judge must deposit 3.5% of his or her basic pay for each year of service to obtain credit for the service under the judges' plan.

The judge must also pay interest on the deposit for the period from when the service ended to the date when the deposit is made. Until 1980, the interest rate was 3%. From 1980 on, the interest rate is a variable rate tied to the performance of the fund in which plan assets are held. The District continued to charge 3% after 1980. The District's failure to use an interest rate based on the investment returns of the fund resulted in judges who purchased service credit receiving full credit without paying the amount of interest required by statute.

At the Office's direction, active judges who initiate a purchase of service now pay the correct amount of interest. The Office calculated the correct amount of redeposit plus interest for active and retired judges who completed a purchase of service calculated with incorrect interest. Active judges are required to pay the correct amount of redeposit plus interest before retirement to receive credit for the purchased service. The Office resolved the issue of amounts owed by retired judges consistent with Treasury debt collection regulations in 31 C.F.R. Part 29 Subpart E. Treasury does not foresee any material impact on the Office's financial statements.

The District also failed to apply similar statutes under the police officers' and firefighters', and teachers' plans. As a result, participants of these plans underpaid for purchase of service. The Act, as amended, does not provide the Office with the authority to recover these underpayments.

3. Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for D.C. police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security old age or disability benefits based upon his or her wages and self-employment income, credit for military service must be excluded and the retirement benefit from the District plan must be recalculated. This must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). To date, the District has not performed the necessary recalculations.

As soon as the Office is able to verify Social Security eligibility with the Social Security Administration, the Office intends to recalculate and correct all affected benefit payments going forward and collect past overpayments that occurred prior to the date the annuities are corrected, subject to waiver, compromise or termination of collection activity. Treasury estimates there may be approximately 250 current annuitants whose annuities must be reduced and approximately 120 additional annuitants per year whose annuities will be adjusted when they reach the age of eligibility for full Social Security benefits.

Going forward, the STAR pension/payroll system will be programmed to flag members who reach Social Security eligibility age so that the benefits administrator can contact the Social Security Administration to confirm eligibility for Social Security benefits.

4. Application of Statutory Minimum Survivor Annuity (Police Officers and Firefighters)

District law mandates a minimum annuity for survivors of the members of the Police Officers' and Firefighters' Retirement Plan. In some cases the District failed to include special pay in the calculation of the minimum survivor annuity as required by statute.

The Office recalculated benefit payments of 103 affected annuitants, 79 of whom received corrected annuity payments and retroactive payments of approximately \$575,000 in August and September 2002. The remaining 24 police officer survivors, due payments of \$26,000, are part of a group of annuitants who are due pay increases as a result of the 2002 collective bargaining agreements for police officers, firefighters, and teachers. By December 1, 2002, the Office and the District plan to adjust the annuities of all individuals affected by the collective bargaining agreements. Additional work may be required to identify and correct other individuals eligible for a minimum survivor adjustment (e.g., those no longer on the retirement payroll).

5. Application of COLA Proration Provision (Police Officers and Firefighters and Teachers)

Police officer and firefighter and teacher annuitants have received prorated first COLAs since 1995 or 1997, depending on the date of retirement. In the proration of COLAs for annuitants who retired on the last day of the month, the District mistakenly included an extra month. In October 2002, the Office and the District will correct benefit payments going forward for 397 affected annuitants. Overpayments that occurred prior to the date the annuities are corrected going forward are primarily District Benefit overpayments. The Office waived or terminated collection activity on Federal Benefit overpayments to three annuitants totaling less than \$500.

6. Application of Statutory COLA for Child Survivors (Teachers)

In December 2001, the Office determined that the District had inaccurately adjusted annuity payments in FY 2001 for active teacher child survivors who had not received COLAs in the calculation of their initial benefits, as required by statute.

In June 2002, the Office corrected annuities going forward for 44 active child survivors and authorized retroactive payments for 42 of the 44 survivors (the other two had net overpayments as a result of other errors). The Office also identified 54 inactive child survivors who were underpaid and one inactive child survivor who was overpaid. As of September 30, 2002, Treasury has authorized retroactive payments to 46 of the 54 underpaid inactive child survivors. The remaining eight survivors will be paid as soon as the Office is able to verify their identities and addresses. The underpayments to active and inactive child survivors total approximately \$900,000. The overpayments of approximately \$21,000 to three child survivors were addressed consistent with Treasury debt collection regulations in 31 C.F.R. Part 29 Subpart E.

7. Application of Statutory Survivor Benefit Elections (Teachers)

The teachers' retirement application, used by the District until June 2001, omitted the partial survivor annuity option. Based on documents and computation tools the Office developed for the D.C. Public Schools, teachers retiring after May 31, 2001, are now being offered the correct options. The omission of the partial survivor option may have denied certain survivors opportunities to receive annuities and may have given certain retirees lower annuities than they would have preferred. Also, retiring teachers were not told that they must elect at least a partial survivor annuity for their spouses to remain eligible for health care coverage after the teachers' deaths.

At Treasury's direction in May 2002, packages permitting married retirees to apply to change their election of no survivor benefit to a partial survivor benefit, or from a full survivor benefit to a partial survivor benefit, were mailed to approximately 2,500 married retirees. Retirees who wished to elect a partial survivor annuity had to certify that they would have made this election at retirement had they been given an opportunity to do so. As of September 30, 2002, about 250 retirees had requested a change in their survivor benefit election.

Retirees requesting a change in the survivor benefit election are effectively electing a new retiree benefit, retroactive to the annuity commencing date. Retirees who had initially elected no survivor annuity will have been overpaid if they now elect a partial survivor annuity. The Office plans to initiate collection of overpayments, subject to waiver, compromise or termination of collection activity. Retirees who had initially elected a full survivor annuity will have been underpaid if they now elect a partial survivor annuity. The Office will compensate these retirees for underpayments created by electing a partial survivor annuity.

8. Application of Statutory Longevity Pay for Certain Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until relatively recently, District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants (retirees and survivors). In the last two years, District and Federal statutes have been enacted that require calculating retirement benefits to include longevity pay in the salary at the time of retirement. The Federal statute applies to Federal payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the Federal statute requires recalculation of initial benefits going back 30 years in some cases. Resolution of issues involving the implementation methodology and eligibility for the longevity retirement pay adjustment has delayed implementation of the District and Federal statutes.

The Federal statute provides that Federal Benefit Payments be calculated following the District statute's methodology. Under this methodology, data collection and calculations could take from six months to one year to accomplish. The Association of Retired Police Officers (AORP) has proposed legislation (H.R. 5205) that would authorize a simplified methodology for Federal

Benefit Payments. The legislation was passed in the House on October 10, 2002, and in the Senate on October 17, 2002. The Bill awaits the President's signature to become law.

When H.R. 5205 is enacted, the Office will calculate Federal Benefit Payments for annuitants who retired before July 1, 1997. As a result of including longevity pay in their retirement calculations, for the period January 2001 through September 2002, approximately 1,800 annuitants in this group are owed approximately \$18 million in retroactive Federal benefits.

Annuitants who retire after June 30, 1997 receive a split Federal/District benefit. The timetable to calculate Federal Benefit Payments for these annuitants will depend on the action on two pieces of District legislation which affect the calculation of District Benefit Payments.

The first piece of District legislation, sponsored by AORP, would authorize the simplified calculation methodology for District Benefit Payments. It has been passed by the D.C. City Council, signed by the Mayor, and is awaiting approval in Congress.

The second piece of District legislation would change the D.C. longevity statute so that the legal interpretation of eligibility will match for Federal and District Benefit Payments. In January 2002, the District's Office of Personnel notified Treasury that the District would draft such legislation. The bill has been drafted and is awaiting introduction to the D.C. Council for consideration. When the eligibility legislation as well as the methodology legislation is passed, the Office will calculate Federal and District Benefit Payments for annuitants who retired after June 30, 1997.

F. Files Storage

In July 2002, the Office implemented a consolidated file-tracking tool that tracks retirement files throughout their lifecycles. The tracking tool is an easy-to-use, automated system that gives users the capability to track files from the time they are received at the District and includes any offsite location of the files. The tool features a "check-in" and "check-out" function to replace manual paper cards. The system tracks all associated names with a particular file, which was one of the problems most often encountered when retrieving a file. The tool contains various search criteria for tracking and retrieving files. It also produces a myriad of reports including cross-referencing and statistical data for analysis.

The Office documented and implemented a standardized procedure for filing retirement files for life changing events, i.e., survivors, name changes and status changes. Training was conducted for the District staff during July 2002, and controls have been implemented to ensure the procedures are being followed.

G. Fiscal Year 2003

In FY 2003, the Office will focus on the following activities:

- developing and implementing a pension/payroll system for the District retirement plans;

- resolving outstanding policy and legal issues governing retirement program benefits, and correcting errors identified;
- improving work processes and internal controls in the District's operations; and
- planning for a final reconciliation (required by the Act) of retirement program activities since October 1997.

III. Financial Highlights

A. Pension Funds

The Act established three funds in Treasury to be the source of Federal Benefit Payments:

- **The District of Columbia Federal Pension Liability Trust Fund (Trust Fund)** was established to make Federal Benefit Payments and pay necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Trust Fund is not a typical pension fund in that it is not a perpetual fund and does not receive employee and employer contributions. Pursuant to the Act, the Trust Fund received assets from the District's Retirement Fund administered by the DCRB.
- **The Federal Supplemental District of Columbia Pension Fund (Supplemental Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the Act, the funds held in the Supplemental Fund are not available for use until the Trust Fund has been depleted. The primary source of funding for the Supplemental Fund is the annual Federal payment amortizing the unfunded liability assumed from the District and any additional liabilities.
- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Fund. This fund receives employee contributions and an annual Federal payment amortizing the unfunded liability assumed from the District and any additional liabilities. Pursuant to the Act, the Judicial Retirement Fund received assets from the Judges' Retirement Fund administered by DCRB.

The financial highlights of the pension funds for FY 2002 and FY 2001 are:

Pension Funds FY 2002 and 2001 Financial Highlights (\$Millions)								
	Trust Fund		Supplemental Fund		Judicial Fund		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Receipts:								
Interest	\$141.6	\$162.3	\$58.5	\$47.3	\$5.0	\$4.9	\$205.1	\$214.5
Reimbursement from DCRB	\$4.6	\$3.8					\$4.6	\$3.8
Deposits from General Fund			\$251.7	\$197.1	\$6.7	\$5.1	\$258.4	\$202.2
Deposits/Contributions from Plan Participants					\$0.5	\$0.6	\$0.5	\$0.6
Net Investments (9/30)	\$2,463.0	\$2,772.0	\$1,402.5	\$1,095.5	\$90.6	\$86.9	\$3,956.1	\$3,954.4

B. Investments

Each Fund is invested in nonmarketable Treasury securities, as required by law. BPD invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations projected by annual actuarial valuations.

C. Benefit Payments

Beginning in June 1999, Treasury funded benefits from the Trust Fund and the Judicial Retirement Fund. In FY 2002, Federal benefits were paid to approximately 13,300 retirees and survivors. In addition, approximately 7,600 active employees who are members of the retirement plans have accrued Federal benefits. In FY 2001, Federal benefits were paid to approximately 13,200 retirees and survivors. Another 7,700 active employees who are members of the retirement plans had accrued Federal benefits. Total Federal benefits and refunded employee contributions were \$446 million and \$424 million during FY 2002 and FY 2001, respectively. These payments are expected to be approximately \$470-\$540 million per year for the next seven years.

D. Actuarial Valuations

- As estimated by the actuarial valuation conducted by Deloitte and Touche (Deloitte) as of October 1, 2002, the Federal Government’s total liability for Federal Benefit Payments to the Police Officers' and Firefighters', and Teachers' Retirement Plans was approximately \$8.3 billion. Of the \$8.3 billion actuarial liability, approximately \$3.9 billion is funded by existing assets of the Trust and Supplemental Funds and \$4.3 billion is unfunded. As of October 1, 2001, Deloitte determined the Federal Government’s total liability for Federal Benefit Payments to the Police Officers' and Firefighters', and Teachers' Retirement Plans to be approximately \$8.1 billion, of which approximately \$3.9 billion was funded by existing assets in the Trust Fund and Supplemental Fund, and approximately \$4.2 billion was unfunded.

- The FY 2002 actuarial valuation projected a peak in annual Federal Benefit Payments for the Police Officers' and Firefighters', and Teachers' Retirement Programs of approximately \$592 million in 2020 before beginning a gradual annual decline. Deloitte projected that the assets in the Trust Fund would last into FY 2008.
- For the Judges Retirement Plan, Deloitte determined an actuarial liability as of October 1, 2002, of \$118.3 million. Of the \$118.3 million actuarial liability, approximately \$93.7 million is funded by existing assets of the Judicial Retirement Fund and \$24.6 million is unfunded. As of October 1, 2001, Deloitte determined an actuarial liability of \$111.9 million, of which \$89.2 million was funded by existing assets of the Judicial Retirement Fund and \$22.7 million was unfunded. The FY 2002 actuarial valuation projected that annual Federal Benefit Payments for the Judges' Retirement Plan will grow steadily for the foreseeable future, reaching approximately \$14 million in 2020.

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years; the net experience gains or losses over 10 years; and any other changes in actuarial liabilities over 20 years, and, amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in nonmarketable Treasury securities with maturities consistent with the expected pension liabilities.

As required by the Act, when the Trust Fund is depleted, the Supplemental Fund will take over funding Federal annuities for retired D.C. police officers and firefighters, teachers, and their survivors.

E. Administrative Expenses

Treasury must fund all expenses incurred to support the Federal responsibilities under the retirement programs since October 1, 1997, the effective date of the Act. Treasury pays expenses from the Trust Fund and the Judicial Retirement Fund, allocated to the Funds in accordance with the benefits derived. For expenses related to activities that benefit all of the retirement programs, expenses are allocated 90% to the Trust Fund and 10% to the Judicial Retirement Fund. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The District is responsible for benefits administration until the Secretary selects a trustee or determines that he will assume the trustee's functions. A memorandum of understanding (MOU) between Treasury and the District provides for the continued administration of the retirement programs by the District on Treasury's behalf. Treasury reimburses the District for expenses incurred in administering the Federal benefits.

Administrative expenses totaled approximately \$11.7 million for the Trust Fund and \$1.9 million for the Judicial Retirement Fund for FY 2002. In FY 2001, administrative expenses totaled approximately \$3.9 million for the Trust Fund and \$185 thousand for the Judicial Retirement Fund. The major administrative expenses of the D.C. Pensions Program were for reimbursement of the District's administrative expenses, Treasury staff salaries and benefits, and vendors engaged by the Office to provide benefits administration services. The increase in FY 2002 administrative expenses as compared to FY 2001 was due primarily to the additional contract support required for correcting past errors in benefit determinations, ensuring compliance with current statutes, performing quality control reviews of benefit determinations, conducting an Independent Validation and Verification of the new pension/payroll system under development, and non-capitalized costs related to the development of the pension/payroll system. Certain other costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as construction in progress. This asset will be depreciated over its estimated useful life when the system has been placed in service. During FY 2002, Treasury incurred \$1.6 million of reimbursable expenses with the District.

F. Key Trends

- In FY 2002, Federal Benefit Payments, including refunds of employee contributions under the District retirement programs for police officers and firefighters, teachers, and judges totaled \$446 million compared with \$424 million in FY 2001. Administrative expenses totaled approximately \$11.7 million for the Trust Fund and \$1.9 million for the Judicial Retirement Fund in FY 2002. Administrative expenses totaled approximately \$3.9 million for the Trust Fund and \$185 thousand for the Judicial Retirement Fund in FY 2001.
- The actuarial liability funded by available assets as of September 30, 2002, was \$4.0 billion, which is also the same as the funded liabilities reported as of September 30, 2001. Unfunded liabilities as of September 30, 2002, were \$4.4 billion, which is up \$200 million from the \$4.2 billion unfunded liabilities reported as of September 30, 2001.

G. District Reimbursement to the Treasury

Because the District's automated system does not currently have the capability to calculate benefit splits, Treasury is funding all benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the MOU, the District reimburses the Trust Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2002, DCRB reimbursed Treasury \$4.6 million for estimated District Benefit Payments paid in FY 2001 by Treasury on the District's behalf. As a result of a reconciliation of annuitant payments refunded to the District, during FY 2002, the District reimbursed Treasury approximately \$1.5 million for payments made by Treasury to annuitants between June 1999 and September 2001 and approximately \$500 thousand for payments made in fiscal year 2002. In January 2003, DCRB will reimburse Treasury for estimated District Benefit Payments paid by Treasury on the District's behalf during FY 2002. The DCRB's actuary will determine the reimbursement amount. At this time, based on the D.C. Pensions actuarial

valuation as of October 2002, Treasury estimates the amount of the reimbursement to be \$5.9 million.

This process will be repeated for future full fiscal years in which Treasury pays District Benefit Payments until the STAR system is fully operational for the Police Officers' and Firefighters' and Teachers' Retirement Plans. Thereafter, benefit splits will be calculated, and the DCRB will fund District Benefit Payments on a monthly basis.

H. Prompt Payment

To ensure that Federal agencies pay invoices in a timely manner, agencies must comply with the Prompt Payment Act and the OMB Circular A-125, which is now codified in the Code of Federal Regulations. Generally, the law requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the services. If this timeframe is not met, an interest penalty must be paid to the vendor. Within Treasury, the standard for the timely payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (i.e., at least 98% paid within 30 days). The Office's prompt payment rate exceeds the Treasury standard. The Office's prompt payment performance for FY 2002 is presented below.

1.	Number of Invoices Paid	114
2.	Number of Invoices Paid Late	0
3.	Interest Penalties Paid	0
4.	Percentage of Invoices Paid Late	0

I. Electronic Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage Federal agencies to use electronic payments. In FY 2002, 100% of the Office's 115 vendor payments (1 vendor payment was not subject to the Prompt Pay Act) were made via EFT.

For the period of June 2002 through September 2002, 86% of retired police officers, 88% of retired firefighters, 88% of retired teachers and 90% of retired judges received their monthly benefit payments by direct deposit.

J. 3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality score card maintained by the Treasury's Office of Accounting and Internal Control.

IV. Independent Auditors' Reports on FY 2002 Financial Statements, Controls and Legal Compliance

KPMG LLP, an independent public accountant, rendered an unqualified opinion on the Office of D.C. Pensions' FY 2002 financial statements. This is the fourth consecutive year that Office of D.C. Pensions' financial statements have received an unqualified opinion. KPMG noted no matters involving the internal control and its operation that are considered to be material weaknesses. Also, the results of the KPMG tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

V. Statutory Issues and Legal Activity

A. Legislative Proposal

Treasury has proposed that the Act and/or applicable provisions of the D.C. Code be amended to merge the Trust Fund and the Supplemental Fund; require spousal consent for married teachers who wish to elect anything other than a full survivor annuity; harmonize the provisions in the Police Officers' and Fire Fighters' Retirement Plan with respect to Federal and District benefits for members who die in the performance of duty; and make the Act's provisions on notice of denial of benefits and the opportunity for review applicable to the Judges' Retirement Plan. The proposal was cleared by the OMB, and transmitted to Congress on July 11, 2002.

B. Privacy Act

The Office published a Notice of Proposed New Privacy Act System of Records in the Federal Register on October 9, 2002, for all applicable records used by the Office.

VI. Limitations of the Financial Statements

- The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position and financing, and combined statements of budgetary resources for the years then ended (hereinafter referred to as "financial statements"). These financial statements are the responsibility of ODCP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 3 to the financial statements, during 2002 ODCP restated certain 2001 financial statement amounts to reflect the retroactive reclassification of unexpended appropriations to cumulative results of operations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 41 through 50 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of ODCP's pension funds





individually. The information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 8, 2002, on our consideration of ODCP's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 8, 2002

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2002 and 2001
(in thousands)

	2002	2001 Restated
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 4)	\$ 271	166
Investments in GAS Securities, Net (Note 5)	3,956,073	3,954,488
Interest Receivable from GAS Securities	57,497	62,615
Construction-In-Progress (ADP Software)	22,455	12,634
Equipment, Net (Note 6)	56	78
Accounts Receivable	5,912	6,229
Total Assets	<u>\$ 4,042,264</u>	<u>4,036,210</u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 179	288
Accrued Payroll & Benefits	7	14
Accounts Payable	8,043	6,272
Accrued Pension Benefits Payable	55,260	36,175
Actuarial Pension Liability	3,978,538	3,993,178
Accrued Payroll & Benefits	237	283
Total Liabilities Covered By Budgetary Resources	<u>4,042,264</u>	<u>4,036,210</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability	4,366,002	4,203,247
Total Liabilities	<u>8,408,266</u>	<u>8,239,457</u>
Net Position		
Cumulative Results of Operations (deficit)	(4,366,002)	(4,203,247)
Total Net Position	<u>(4,366,002)</u>	<u>(4,203,247)</u>
Total Liabilities & Net Position	<u>\$ 4,042,264</u>	<u>4,036,210</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2002 and 2001
(in thousands)

	2002	2001
<i>Program Costs</i>		
<i>Intra-Governmental</i>		
Administrative Expenses (Note 7)	\$ 2,596	826
Pension Expense (Note 8)	613,368	1,062,994
Administrative Expenses (Note 7)	10,964	3,290
<i>Total Program Costs</i>	<u>626,928</u>	<u>1,067,110</u>
 <i>Less: Earned Revenues</i>		
Interest Earned from GAS Securities	205,140	214,555
Employee Contributions	511	570
<i>Net Cost of Operations</i>	<u>\$ 421,277</u>	<u>851,985</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2002 and 2001
(in thousands)

	2002	2001 Restated
Net Position - Beginning of Year	\$ (4,203,247)	(3,553,507)
Financing Sources (Other Than Exchange Revenue)		
Appropriations Used	258,398	202,165
Imputed Financing Sources	124	80
Total Financing Sources	<u>258,522</u>	<u>202,245</u>
Net Cost of Operations	(421,277)	(851,985)
Net Position - End of Year	<u>\$ (4,366,002)</u>	<u>(4,203,247)</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2002 and 2001
(in thousands)

	2002	2001 Restated
Budgetary Resources		
Budget Authority	\$ 688,626	624,330
Unobligated Balance - Beginning of Year	2,761,883	3,020,887
Spending Authority from Offsetting Collections	6,095	3,800
Temporarily Unavailable Pursuant to Public Law	(273,588)	(236,610)
Total Budgetary Resources	<u>\$ 3,183,016</u>	<u>3,412,407</u>
Status of Budgetary Resources		
Obligations Incurred	\$ 752,991	650,524
Unobligated Balances Available	2,430,025	2,761,883
Total Status of Budgetary Resources	<u>\$ 3,183,016</u>	<u>3,412,407</u>
Relationship of Obligations to Outlays		
Obligated Balance, Net - Beginning of Year	-\$ 49,099	41,114
Obligations Incurred	752,991	650,524
Obligated Balance, Net - End of Year	(70,098)	(49,099)
Outlays		
Disbursements	731,992	642,539
Collections	(6,095)	(3,800)
Subtotal	725,897	638,739
Less: Offsetting Receipts	205,651	215,125
Net Outlays	<u>\$ 520,246</u>	<u>423,614</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Financing
For the Years Ended September 30, 2002 and 2001
(in thousands)

	2002	2001 Restated
<i>Budgetary Resources Obligated</i>		
Obligations Incurred	\$ 752,991	650,524
Less: Spending Authority from Offsetting Collections and Recoveries	6,095	3,800
Obligations Net of Offsetting Collections and Recoveries	746,896	646,724
Less: Offsetting Receipts	205,651	215,125
Net Obligations	541,245	431,599
Imputed Financing from Costs Absorbed by Others	124	80
Total Resources Used to Finance Activities	541,369	431,679
<i>Resources Used to Finance Items Not Part of the Net Cost of Operations</i>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	305	4,877
Resources that Fund Expenses Recognized in Prior Periods	(300)	2,509
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	9,822	8,396
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	258,398	202,165
Total Resources used to Finance Items not part of the Net Cost of Operations	268,225	217,947
Total Resources Used to Finance Net Cost of Operations	273,144	213,732
<i>Components Requiring or Generating Resources in Future Periods</i>		
Future Funded Expenses	148,115	638,216
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	148,115	638,216
<i>Components not Requiring or Generating Resources</i>		
Depreciation and Amortization	22	22
Revaluation of Assets or Liabilities	(4)	-
Other	-	15
Total Components of Net Cost of Operations that will not Require or Generate Resources	18	37
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	148,133	638,253
Net Cost of Operations	\$ 421,277	851,985

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

(1) Reporting Entity

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) assume certain responsibilities for the District of Columbia (D.C.) pension system, including administration of fund assets and making Federal pension benefit payments. The Department of the Treasury's (Treasury) Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. This is accomplished through a matrix management arrangement that includes a core office supported by other Treasury offices that provide expertise in the range of program areas encompassed by the Act. The Office of D.C. Pensions is responsible for investments, benefits administration, actuarial valuations, procurement, information systems, and financial reporting. Treasury's Office of the General Counsel provides legal analysis.

To varying degrees the Secretary is responsible for three D.C. retirement plans:

- Police Officers' and Firefighters' Retirement Plan
- Teachers' Retirement Plan
- Judges' Retirement Plan

For the Police Officers' and Firefighters', and Teachers' Retirement Plans, the Secretary is responsible for paying benefits earned through June 30, 1997. The D.C. Government is responsible for paying benefits earned after June 30, 1997. For the Judges' Retirement Plan, the Secretary is responsible for all benefits earned.

(a) District of Columbia Federal Pension Liability Trust Fund

Pursuant to the Act, Treasury established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund – 20X8230). The Trust Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The Trust Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Income earned on the investments held in the Trust Fund; and
- Reimbursement from the D.C. Government for the District's estimated share of benefits paid from the Trust Fund for Fiscal Years (FY) 1998-2002.

The portion of the Trust Fund that is not needed to meet the level of current benefit payments, refunds, and administrative expenses is invested in Government Account Series (GAS) securities issued by the Bureau of Public Debt. Investments are made in securities with maturities suitable to the needs of the Trust Fund.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

(b) *Federal Supplemental District of Columbia Pension Fund*

Pursuant to the Act, Treasury established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500). The Supplemental Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Funds held in the Supplemental Fund are not available for use until such time as the funds held in the Trust Fund have been depleted. No later than 18 months before the projected depletion of the available assets of the Trust Fund, the Secretary shall determine the manner in which the Supplemental Fund will be used to fund future benefits and administrative expenses.

The Supplemental Fund consists of the following:

- Amounts deposited from the General Fund of the Treasury; and
- Income earned on the investments held in the Supplemental Fund.

The funds held in the Supplemental Fund are invested in GAS securities with maturities suitable to the needs of the Supplemental Fund.

In the President's Budget for FY 2003, the Office of Management and Budget (OMB) reclassified the Supplemental Fund from a general fund to a special fund in order to reflect the substance of the fund as a recipient of appropriations to be used to fund retirement benefits earned by District of Columbia employees prior to July 1, 1997. By the end of each applicable fiscal year, the Act requires the Secretary to pay into the Supplemental Fund (from the General Fund of the Treasury) an amount equal to the annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize in equal annual installments the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The original unfunded liability is the present value of future benefits payable from the Supplemental Fund as of October 1, 1997. The amount paid into the Supplemental Fund during FY 2002 and 2001 was \$251.7 million and \$197.1 million, respectively. The payment is received through the appropriation warrant process. An appropriation is received by the Federal Payment to the Federal Supplemental District of Columbia Pension Fund (20X1714) and then is disbursed in full to the Supplemental Fund.

(c) *District of Columbia Judicial Retirement and Survivors Annuity Fund*

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund – 20X8212). The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges' plan under the provisions of the Act.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The original unfunded liability is the present value of future benefits payable from the fund as of September 30, 1997, net of the sum of the present value of future normal costs and plan assets on such date. The amount paid into the Judicial Retirement Fund during FY 2002 and 2001 was approximately \$6.7 million and \$5.1 million, respectively. The payment is received through the appropriation warrant process. An appropriation is received by the Federal Payment to the District of Columbia Judicial Survivors and Annuity Fund (20X1713) and then is disbursed in full to the Judicial Retirement Fund.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting and Presentation*

The Office of DC Pensions' financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, Changes in Net Position, and the Combined Statements of Budgetary Resources and Consolidated Statement of Financing, all of which are prescribed by the Office of Management and Budget (OMB) Bulletins. The financial statements have been prepared from the accounting records of the Office of D.C. Pensions in conformity with accounting principles generally accepted in the United States of America (GAAP) and the Form and Content of Agency Financial Statements specified by OMB in OMB Bulletin No. 01-09. GAAP for federal entities is primarily prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements are different from the financial

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

reports, also prepared by the Office of D.C. Pensions, pursuant to OMB directives that are used to monitor and control the Office of D.C. Pensions' use of budgetary resources.

These financial statements should be read with the realization they are for a component of a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

(b) *Fund Balance with Treasury*

Fund Balance with Treasury represents appropriated funds remaining as of fiscal year-end from which the Office of D.C. Pensions is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

(c) *Investments*

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the portions of the Trust, Supplemental, and Judicial Retirement Funds (Retirement Funds) that are not necessary to meet current obligations, in GAS securities. These non-marketable market-based (MK) securities are Treasury securities that mirror the prices of marketable securities with similar terms, and are issued and redeemed by the Bureau of the Public Debt.

Amounts needed to meet current obligations are invested in overnight non-marketable par value GAS securities, redeemed at face value plus accrued interest.

(d) *Investment Policy and Valuation Methods for Investments*

The Office of D.C. Pensions follows Treasury investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately 11 years. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

(e) *Construction-In-Progress (ADP Software)*

Construction-In-Progress consists of pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 - 2002 to build a retirement system to better meet Treasury's and D.C.'s needs. When the software is placed in service, the Construction-In-Progress account will be transferred to ADP Software - Net and depreciated using the straight-line method over its estimated useful life.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

(f) *Equipment - Net*

Equipment – Net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to modify the pension benefit and payroll software that is reported in Construction-In-Progress. Costs of equipment are recorded as an asset and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

Equipment is depreciated using the straight-line method over the asset's estimated useful life, with six months depreciation taken in the first and last year.

(g) *Accounts Receivable*

Accounts Receivable consist of a receivable from the D.C. Government for the District's estimated share of benefits paid by the Office of DC Pensions during FY 2002 and 2001 respectively, and employee retirement contributions withheld from the judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of the fiscal years.

(h) *Accrued Liabilities*

The accompanying financial statements include certain accrued liabilities. Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. Included in this accrual are amounts for refund claims that have not completed processing during the reporting period, but will be paid in the subsequent period.

(i) *Actuarial Pension Liability*

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges Retirement Plan is the Aggregate Entry Age Normal Actuarial Cost Method. Under this funding method, the normal cost is a level percent of pay cost, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial liability.

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Actuarial liability is based upon assumptions made by Treasury. The assumptions used in FY 2001 and FY 2002 were an annual rate of investment return of 6.0% based on the securities held, salary increases at an annual rate of 4.0%, and annual inflation and cost-of-living adjustments at 3.0%.

(j) *Appropriations Received and Used*

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources," all appropriations received by the Office of D.C. Pensions are reported in the accompanying consolidated statements of changes in net position as appropriations used, since the liability to provide retirement benefits to judges, police officers, firefighters and teachers was established as of June 30, 1997. Appropriations received and used for the years ended September 30, 2002 and 2001 (in thousands) were \$258,398 and \$202,165, respectively.

(k) *Employee Retirement Plans*

The Trust and Judicial Retirement Funds pay salaries and benefits of Treasury employees who work on the D.C. Pensions Program as reasonable and necessary expenses incurred by the Secretary in carrying out his responsibilities under the Act. These employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to join either FERS and Social Security or remain in CSRS.

Most employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the Trust and the Judicial Retirement Funds make mandatory combined contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. The contributions are split 90% and 10% between the Trust and the Judicial Retirement Funds, respectively.

Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

After retirement, FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program. The Trust and Judicial Retirement Funds remit the employer's share of the required contributions for eligible employees.

The Trust and Judicial Retirement Funds do not report information pertaining to the retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

U.S. DEPARTMENT OF THE TREASURY

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Notes to Financial Statements

September 30, 2002 and 2001

(3) Reclassification of Unexpended Appropriations

Although the appropriations accumulated in the Supplemental Fund are not available for use until such time as the funds held in the Trust Fund have been depleted, a liability to provide retirement benefits to police officers, firefighters and teachers had been established as of June 30, 1997. Therefore the appropriations received by the Supplemental Fund since its inception as well as the FY 2001 appropriation of \$197,100, should have been reported as "appropriations used" in accordance with SFFAS No.7, rather than as "unexpended appropriations" as previously reported. As a result, the Office of DC Pensions has restated its FY 2001 financial statements, in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," as shown in the following table. In addition, certain other 2001 amounts have been reclassified to conform with the 2002 presentation. Those reclassified amounts are also included in the following table (all amounts in thousands).

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Consolidated Balance Sheet:			
Unexpended Appropriations	\$ 1,013,200	(1,013,200)	-
Cumulative Results of Operations	(5,216,447)	1,013,200	(4,203,247)
Consolidated Statement of Changes in Net Position:			
Appropriations Used	5,065	197,100	202,165
Increase in Unexpended Appropriations	197,100	(197,100)	-
Combined Statement of Budgetary Resources:			
Budget Authority	387,720	236,610	624,330
Spending Authority from Offsetting Collections	43,310	(39,510)	3,800
Obligations Incurred	453,424	197,100	650,524
Disbursements	445,439	197,100	642,539
Consolidated Statement of Financing:			
Obligations Incurred	453,424	197,100	650,524
Spending Authority from Offsetting Collections	43,310	(39,510)	3,800
Offsetting Receipts	167,832	47,293	215,125

U.S. DEPARTMENT OF THE TREASURY

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OFFICE OF D.C. PENSIONS

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	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Exchange Revenue not in Offsetting Collections	2,952	(2,952)	-
Premium Amortization Increasing Net Cost of Operations	(2,066)	2,066	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	15,293	(6,897)	8,396
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	5,065	197,100	202,165

The net effect of these adjustments on total net position of the Supplemental Fund was zero.

(4) Fund Balance with Treasury

Fund Balance with Treasury and the status of Fund Balance with Treasury as of September 30, 2002 and 2001, consisted of the following (in thousands):

	<u>2002</u>	<u>2001</u>
Fund Balances:		
Trust Funds	\$ 270	166
Special Funds	1	—
Total Fund Balance with Treasury	\$ <u>271</u>	<u>166</u>

	<u>2002</u>	<u>2001</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Unavailable	\$ 1	-
Obligated Balance not yet Disbursed	<u>270</u>	<u>166</u>
Total	\$ <u>271</u>	<u>166</u>

U.S. DEPARTMENT OF THE TREASURY

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September 30, 2002 and 2001

(5) Investments in GAS Securities - Net

Investments in GAS Securities – Net as of September 30, 2002, and 2001, consisted of the following (in thousands):

		2002			
		Cost	Unamortized Premium	Investments Net	Market Value
Intragovernmental Securities					
Non-marketable Par Value	\$	123,600	—	123,600	123,600
Non-marketable Market-based		3,743,978	88,495	3,832,473	4,157,667
Total	\$	3,867,578	88,495	3,956,073	4,281,267
		<hr/>			
		2001			
		Cost	Unamortized Premium	Investments Net	Market Value
Intragovernmental Securities					
Non-marketable Par Value	\$	80,433	—	80,433	80,433
Non-marketable Market-based		3,824,521	49,534	3,874,055	4,090,763
Total	\$	3,904,954	49,534	3,954,488	4,171,196

The amortization method utilized by the Retirement Funds is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2002, and 2001, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are net unrealized gains of \$325.2 million and \$216.7 million as of September 30, 2002 and 2001, respectively.

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The amortized cost of non-marketable, market-based, GAS securities as of September 30, 2002, and 2001, by maturity date, are as follows (in thousands):

	<u>2002</u>	<u>2001</u>
Less than or equal to 1 year	\$ 545,645	525,587
More than 1 year and less than or equal to 5 years	2,091,486	2,032,383
More than 5 years and less than or equal to 10 years	1,184,811	1,305,349
More than 10 years	<u>10,531</u>	<u>10,736</u>
Total	\$ <u>3,832,473</u>	<u>3,874,055</u>

(6) Equipment - Net

The components of Equipment – Net as of September 30, 2002, and 2001, are as follows (in thousands):

	<u>2002</u>	<u>2001</u>
ADP Hardware	\$ 111	111
Accumulated Depreciation	<u>(55)</u>	<u>(33)</u>
Equipment – Net	\$ <u>56</u>	<u>78</u>

The useful life of the ADP hardware is estimated to be five years.

(7) Administrative Expenses

Administrative expenses for the years ended September 30, 2002, and 2001, are as follows (in thousands):

	<u>2002</u>	<u>2001</u>
Salaries and Related Benefits	\$ 2,168	1,669
Benefits Administration	1,762	1,748
Contractual Services	8,540	657
Rent	348	14
Noncapitalized Equipment/Software	732	20
Other	<u>10</u>	<u>8</u>
Total Administrative Expenses	\$ <u>13,560</u>	<u>4,116</u>

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Included in the above expenses are amounts incurred by the Trust and Judicial Retirement Funds for intragovernmental activity totaling \$2,309 thousand and \$287 thousand, respectively, for September 30, 2002, and \$710 thousand and \$116 thousand, respectively, for September 30, 2001.

(8) Pension Expenses

Pension expenses for the plan years ended September 30, 2002, and 2001, includes the following components (in thousands):

	<u>2002</u>	<u>2001</u>
Normal Cost	\$ 3,700	3,200
Actuarial losses during the period	110,768	616,894
Interest on pension liability during the period	480,900	442,900
Longevity Pay Adjustment	<u>18,000</u>	<u>—</u>
Total Pension Expenses	\$ <u>613,368</u>	<u>1,062,994</u>

Federal pension benefits paid during the plan years were \$440.3 million and \$5.9 million from the Trust and Judicial Retirement Funds, respectively, for 2002, and \$418.7 million and \$4.9 million, respectively, for 2001. Of the Trust Fund's total expense, approximately \$5 million represents contribution refunds to plan participants for 2002 and \$4.0 million for 2001.

(9) Plan Administration and Description

(a) *Police Officers' and Firefighters' Retirement Plan*

Eligibility

A participant becomes a member when he or she starts work as a police officer or firefighter in the District of Columbia. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of basic pay. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Members (not survivors) who retired prior to February 15, 1980, receive the same percentage increase in annuities as active employees' salary increases. Members who retired on or after February 15, 1980 and all survivors receive an increase each March based on the annual change in the Consumer Price Index for All Urban Consumers (all items – U.S. City Average) from December to December.

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Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 consecutive months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred benefit beginning at age 55 if they do not receive a refund of contributions.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than five years of departmental service receive an annuity equal to 2% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

Members Hired After February 15, 1980, and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55 if they do not receive a refund of contributions.

Members with service related disabilities, receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement with 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental and credited service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

U.S. DEPARTMENT OF THE TREASURY

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September 30, 2002 and 2001

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Participant Data

For the September 30, 2002, and 2001, actuarial valuations, the participants are as follows:

	<u>2002</u>	<u>2001</u>
Active members	3,753	3,890
Retirees and beneficiaries	7,825	7,815
Vested terminated members	—	—
Total	<u>11,578</u>	<u>11,705</u>

Longevity Pay Adjustment for Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until relatively recently, District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants (retirees and survivors). In the last two years, District and Federal statutes have been enacted that require calculating retirement benefits to include longevity pay in the salary at the time of retirement. The Federal statute applies to Federal payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the Federal statute requires recalculation of initial benefits going back 30 years in some cases.

Data collection and calculations required by the D.C. statute's methodology could take from six months to one year to accomplish. The Association of Retired Police Officers (AORP) has proposed legislation that would authorize a simplified methodology for District benefit payments. It has been passed by the D.C. City Council, signed by the Mayor, and as of September 30, 2002, was awaiting approval in Congress. Similar legislation, H.R. 5205, was introduced in Congress to do the same for Federal benefit payments. H.R. 5205 was passed in the House on October 10, 2002, and in the Senate on October 17, 2002. The Bill awaits the President's signature to become law.

When the legislation is passed authorizing the simplified calculation methodology, the Office will calculate Federal benefit payments for annuitants who retired before July 1, 1997. As a result of including longevity pay in their retirement calculations, for the period January 2001 through September 2002, approximately 1,800 annuitants in this group are owed approximately \$18 million in retroactive Federal benefits. A liability for this amount has been reported on the FY 2002 Balance Sheet as part of Accrued Pension Benefits Payable.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

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Notes to Financial Statements

September 30, 2002 and 2001

(b) *Teachers' Retirement Plan*

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. Public Schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Voluntary retirement is available for teachers with five years of school service who have attained age 62; age 60 with 20 years of total service, including at least five years of school service; age 55 with 30 years of total service, including at least five years of school service; and at any age with 30 years of total service, including at least five years of school service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For participants hired on or after November 16, 1996, the annuity is equal to 2.0% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of average pay or the benefit the member would receive using average pay at the time of disability with service projected to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have five years of school service, may be eligible for retirement at any age. The retirement benefit is calculated in the same manner as voluntary retirement, except that the involuntary retirement benefit is reduced 1/6% per month (2% per year) for each full month the teacher is under age 55 at the time of separation from the school system.

All participants receive an annuity increase effective each March 1st based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from December to December.

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OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2002 and 2001

Participant Data

For the September 30, 2002, and 2001, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	<u>2002</u>	<u>2001</u>
Active members	3,817	3,778
Retirees and beneficiaries	5,396	5,331
Vested terminated members	25	25
Total	<u>9,238</u>	<u>9,134</u>

(c) *Judges' Retirement Plan*

Eligibility

A participant becomes a member of the Plan when he or she becomes a judge of the D.C. Court of Appeals or the Superior Court, or when he or she becomes the Executive Officer of the District Court System. A participant's contribution equals 3.5% of annual salary plus an optional 3.5% of annual salary for survivors' benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits at age 50 with at least 20 years of judicial service, at age 60 with at least 10 years of judicial service (seven years of service for the executive officer), or upon reaching age 74. The annuity is equal to the basic salary at retirement times the total years of judicial service divided by 30, plus 1.5% of basic salary times credited service up to five years, plus 1.75% of basic salary times credited service between five years and 10 years, plus 2% of basic salary times credited service over 10 years, subject to a maximum benefit of 80% of final salary at retirement.

A judge electing to retire with at least 10 years of judicial service (at least seven years if the Executive Officer) but less than 20 years of judicial service between ages 55 and 60 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year the participant is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after five years of total service if they have a physical or mental disability that seriously interferes with the proper performance of duties. The annuity to be

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DEPARTMENTAL OFFICES
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Notes to Financial Statements

September 30, 2002 and 2001

received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary.

All participants receive an annuity increase each January based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items - U.S. City Average) from September to September. This cost of living increase is the same increase provided for annuitants in the Federal Civil Service Retirement System (CSRS).

Participant Data

For the September 30, 2002, and 2001, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	<u>2002</u>	<u>2001</u>
Active members	66	63
Retirees and beneficiaries	68	65
Vested terminated members	<u>—</u>	<u>—</u>
Total	<u>134</u>	<u>128</u>

Judges' and Survivors' Annuity Benefits Overpayments

In October 1997, Treasury assumed responsibility for the Judges' Retirement Program. In the course of reviewing the District's administration of the program, Treasury identified systemic incorrect payments to judges and survivors (beneficiaries) dating back to late 1980 -- the most significant of which resulted in overpayments derived primarily from the District's incorrect application of the statutory plan provisions regarding cost-of-living adjustments (COLA).

After a thorough review of the legal issues, Treasury took the following actions:

1. In September 2000, at Treasury's direction, the District applied properly the COLA provisions for all newly retiring judges.
2. In January 2002, at Treasury's direction, the District corrected going forward the benefit payments to the beneficiaries who retired prior to September 2000, resulting in future savings to Treasury of approximately \$2.9 million calculated on a present value basis.
3. Consistent with Treasury regulations in 31 C.F.R. Part 29 Subpart E, Treasury resolved the overpayments that occurred prior to January 2002. Treasury does not foresee any material impact on the Office of D.C. pensions' financial statements.

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Department of the Treasury
Departmental Offices
Office of D. C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2002 and 2001
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002	DC Judicial Retirement and Survivors Annuity Fund FY 2001	Federal Supplemental DC Pension Fund FY 2001	DC Federal Pension Liability Trust Fund FY 2001	Consolidated DC Pension Funds Total FY 2001
Program Costs								
Intra-Governmental								
Administrative Expenses	\$ 287	-	2,309	2,596	116	-	710	826
Pension Expense	12,267	-	601,101	613,368	13,679	-	1,049,315	1,062,994
Administrative Expenses	1,593	-	9,371	10,964	69	-	3,221	3,290
Total Program Costs	14,147	-	612,781	626,928	13,864	-	1,053,246	1,067,110
Less: Earned Revenues								
Interest Earned from GAS Securities	5,050	58,534	141,556	205,140	4,944	47,293	162,318	214,555
Employee Contributions	511	-	-	511	570	-	-	570
Net Cost of Operations	\$ 8,586	(58,534)	471,225	421,277	8,350	(47,293)	890,928	851,985

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2002 and 2001
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002	DC Judicial Retirement and Survivors Annuity Fund FY 2001	Federal Supplemental DC Pension Fund FY 2001 Restated	DC Federal Pension Liability Trust Fund FY 2001	Consolidated DC Pension Funds Total FY 2001 Restated
Net Position - Beginning of Period	\$ (22,732)	1,111,288	(5,291,803)	(4,203,247)	(19,455)	866,895	(4,400,947)	(3,553,507)
Financing Sources (Other Than Exchange Revenue)								
Appropriations Used	6,698	251,700	-	258,398	5,085	197,100	-	202,185
Imputed Financing Sources	12	-	112	124	8	-	72	80
Total Financing Sources	6,710	251,700	112	258,522	5,073	197,100	72	202,245
Net Cost of Operations	(8,586)	58,534	(471,225)	(421,277)	(8,350)	47,293	(890,928)	(851,985)
Net Position - End of Period	\$ (24,608)	1,421,522	(5,762,916)	(4,366,002)	(22,732)	1,111,288	(5,291,803)	(4,203,247)

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2002 and 2001
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Combined DC Pension Funds Total FY 2002	DC Judicial Retirement and Survivors Annuity Fund FY 2001	Federal Supplemental DC Pension Fund FY 2001 Restated	DC Federal Pension Liability Trust Fund FY 2001	Combined DC Pension Funds Total FY 2001 Restated
Budgetary Resources								
Budget Authority	\$ 18,619	525,288	144,719	688,626	15,237	433,710	175,383	624,330
Unobligated Balance - Beginning of Year	82,072	-	2,679,811	2,761,883	78,305	-	2,942,582	3,020,887
Spending Authority from Offsetting Collections	-	-	6,095	6,095	-	-	3,800	3,800
Temporarily Unavailable Pursuant to Public Law	-	(273,588)	-	(273,588)	-	(236,610)	-	(236,610)
Total Budgetary Resources	\$ 100,691	251,700	2,830,625	3,183,016	93,542	197,100	3,121,765	3,412,407
Status of Budgetary Resources								
Obligations Incurred	\$ 16,155	251,700	485,136	752,991	11,470	197,100	441,954	650,524
Unobligated Balances Available	84,536	-	2,345,489	2,430,025	82,072	-	2,679,811	2,761,883
Total Status of Budgetary Resources	\$ 100,691	251,700	2,830,625	3,183,016	93,542	197,100	3,121,765	3,412,407
Relationship of Obligations to Outlays								
Obligated Balance, Net - Beginning of Year	\$ 1,329	-	47,770	49,099	834	-	40,280	41,114
Obligations Incurred	16,155	251,700	485,136	752,991	11,470	197,100	441,954	650,524
Obligated Balance, Net - End of Year	(2,261)	-	(67,837)	(70,098)	(1,329)	-	(47,770)	(49,099)
Outlays								
Disbursements	15,223	251,700	485,069	731,992	10,975	197,100	434,464	642,539
Collections	-	-	(6,095)	(6,095)	-	-	(3,800)	(3,800)
Total Outlays	15,223	251,700	458,974	725,897	10,975	197,100	430,664	638,739
Less: Offsetting Receipts	5,561	58,534	141,556	205,651	5,514	47,293	162,318	215,125
Net Outlays	\$ 9,662	193,166	317,418	520,246	5,461	149,807	268,346	423,614

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Financing
For the Years Ended September 30, 2002 and 2001
(In thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002	DC Judicial Retirement and Survivors Annuity Fund FY 2001	Federal Supplemental DC Pension Fund FY 2001	DC Federal Pension Liability Trust Fund FY 2001	Consolidated DC Pension Funds Total FY 2001
Budgetary Resources Obligated								
Obligations Incurred								
Less: Spending Authority from Offsetting Collections and Recoveries	\$ 16,155	251,700	485,136	752,991	11,470	197,100	441,954	650,524
Obligations Net of Offsetting Collections and Recoveries	16,155	251,700	485,136	752,991	11,470	197,100	441,954	650,524
Less: Offsetting Receipts	5,561	58,534	141,556	205,651	5,514	47,293	162,318	215,125
Net Obligations	10,594	193,166	337,485	541,245	5,956	149,807	275,836	431,599
Imputed Financing from Costs Absorbed by Others	12	-	112	124	8	-	72	80
Total Resources Used to Finance Activities	10,606	193,166	337,597	541,369	5,964	149,807	275,908	431,679
Resources Used to Finance Items Not Part of the Net Cost of Operations								
Change in Budgetary Resources Obligated for Goods, Services and Benefits								
Ordered but not yet Provided	692	-	(387)	305	486	-	4,391	4,877
Resources that Fund Expenses Recognized in Prior Periods	-	-	(300)	(300)	-	-	2,509	2,509
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	982	-	8,840	9,822	839	-	7,557	8,396
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations								
Total Resources used to Finance Items not part of the Net Cost of Operations	6,698	251,700	-	258,398	5,065	197,100	14,457	202,165
Total Resources Used to Finance Net Cost of Operations	8,372	251,700	8,153	268,225	6,390	197,100	261,451	213,732
Components Requiring or Generating Resources in Future Periods	2,234	(58,534)	329,444	273,144	(426)	(47,293)	-	-
Future Funded Expenses	6,354	-	141,761	148,115	8,774	-	629,442	638,216
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	6,354	-	141,761	148,115	8,774	-	629,442	638,216
Components not Requiring or Generating Resources								
Depreciation and Amortization	2	-	20	22	2	-	20	22
Revaluation of Assets or Liabilities	(4)	-	-	(4)	-	-	-	-
Other	(2)	-	20	18	2	-	35	37
Total Components of Net Cost Operations that will not Require or Generate Resources	6,352	-	141,781	148,133	8,776	-	629,477	638,253
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	8,586	(58,534)	471,225	421,277	8,350	(47,293)	890,928	851,984
Net Cost of Operations	\$							

See accompanying Independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
 Supplemental Information Consolidating Intra-governmental Balances
 As of and for the years ended September 30, 2002 and 2001
 (in thousands)

Department	Intra-governmental balance description	2002				2001			
		D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Assets:									
Treasury	Fund Balance with Treasury	\$ 28	1	242	271	17	—	149	166
Treasury	Interest receivable from GAS securities	1,267	19,070	37,160	57,497	1,247	15,771	45,597	62,615
Treasury	Investments in GAS securities, net	90,632	1,402,451	2,462,990	3,956,073	86,909	1,095,517	2,772,062	3,954,488
	Total intra-governmental assets	\$ 91,927	1,421,522	2,500,392	4,013,841	88,173	1,111,288	2,817,808	4,017,269
Liabilities:									
Treasury	Accounts Payable	—	—	1	1	24	—	112	136
OPM	Accounts Payable	18	—	160	178	15	—	137	152
Gen Fund	Accrued Payroll & Benefits	—	—	2	2	—	—	3	3
OPM	Accrued Payroll & Benefits	1	—	4	5	1	—	10	11
	Total intra-governmental liabilities	\$ 19	—	167	186	40	—	262	302
Revenues:									
Treasury	Interest earned from GAS Securities	\$ 5,050	58,534	141,556	205,140	4,944	47,293	162,318	214,555
OPM	Imputed Financing Sources	12	—	112	124	8	—	72	80
	Total intra-governmental revenues	\$ 5,062	58,534	141,668	205,264	4,952	47,293	162,390	214,635
Expenses:									
Treasury	Contractual Services	\$ 202	—	1,544	1,746	63	—	237	300
Labor	Contractual Services	20	—	180	200	9	—	80	89
OPM	Contractual Services	18	—	162	180	15	—	137	152
GSA	Contractual Services	7	—	62	69	—	—	—	—
OPM	Employee Benefits Expense	21	—	187	208	15	—	135	150
Gen Fund	Employee Benefits Expense	7	—	63	70	6	—	49	55
OPM	Imputed Costs (OPEB)	12	—	111	123	8	—	72	80
	Total intra-governmental expenses	\$ 287	—	2,309	2,596	116	—	710	826

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Investments in GAS Securities - Net By Fund
For the years ended September 30, 2002 and 2001
(in thousands)

	2002				2001			
	Cost	Unamortized Premium (Discount)	Investments Net	Market Value	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 3,255	-	3,255	3,255	3,182	-	3,182	3,182
Non-marketable Market-based	85,718	1,659	87,377	99,885	82,406	1,321	83,727	90,832
Total	<u>\$ 88,973</u>	<u>1,659</u>	<u>90,632</u>	<u>103,140</u>	<u>85,588</u>	<u>1,321</u>	<u>86,909</u>	<u>94,014</u>
Federal Supplemental D.C. Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ -	-	-	-	-	-	-	-
Non-marketable Market-based	1,351,503	50,948	1,402,451	1,539,664	1,077,915	17,602	1,095,517	1,152,698
Total	<u>\$ 1,351,503</u>	<u>50,948</u>	<u>1,402,451</u>	<u>1,539,664</u>	<u>1,077,915</u>	<u>17,602</u>	<u>1,095,517</u>	<u>1,152,698</u>
D.C. Federal Pension Liability Trust Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 120,345	-	120,345	120,345	77,251	-	77,251	77,251
Non-marketable Market-based	2,306,757	35,888	2,342,645	2,518,118	2,664,200	30,611	2,694,811	2,847,233
Total	<u>\$ 2,427,102</u>	<u>35,888</u>	<u>2,462,990</u>	<u>2,638,463</u>	<u>2,741,451</u>	<u>30,611</u>	<u>2,772,062</u>	<u>2,924,484</u>

See accompanying independent auditors report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity
For the years ended September 30, 2002 and 2001
(in thousands)

Time of Maturity	2002				2001			
	D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Less than or equal to 1 year	\$ -	-	545,645	545,645	-	-	525,587	525,587
More than 1 year and less than or equal to 5 years	-	294,486	1,797,000	2,091,486	-	-	2,032,383	2,032,383
More than 5 years and less than or equal to 10 years	76,846	1,107,965	-	1,184,811	72,991	1,095,517	136,841	1,305,349
More than 10 years	10,531	-	-	10,531	10,736	-	-	10,736
Total	<u>87,377</u>	<u>1,402,451</u>	<u>2,342,645</u>	<u>3,832,473</u>	<u>83,727</u>	<u>1,095,517</u>	<u>2,694,811</u>	<u>3,874,055</u>

See accompanying independent auditors report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Administrative Expenses - By Fund

For the years ended September 30, 2002 and 2001
(in thousands)

	2002			2001		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Salaries and Related Benefits	\$ 216	1,952	2,168	171	1,498	1,669
Benefits Administration	23	1,739	1,762	(89)	1,837	1,748
Contractual Services	1,532	7,008	8,540	99	558	657
Rent	35	313	348	1	13	14
Noncapitalized Equipment/Software	73	659	732	2	18	20
Other	1	9	10	1	7	8
Total Administrative Expenses	\$ 1,880	11,680	13,560	185	3,931	4,116

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Pension Expense - By Fund

For the years ended September 30, 2002 and 2001
(in thousands)

	2002			2001		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Normal Cost	\$ 3,700	-	3,700	3,200	-	3,200
Actuarial (Gains) Losses During the Period	2,067	108,701	110,768	4,379	612,515	616,894
Interest on Pension Liability During the Period	6,500	474,400	480,900	6,100	436,800	442,900
Longevity Pension Pay Adjustment	-	18,000	18,000	-	-	-
Total Pension Expense	\$ 12,267	601,101	613,368	13,679	1,049,315	1,062,994

See accompanying independent auditors' report.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position, and financing and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 8, 2002, which referred to certain 2001 restated financial statement amounts. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our FY2002 audit, we considered ODCP's internal control over financial reporting by obtaining an understanding of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on ODCP's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in ODCP's Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.





This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2002



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position, and financing and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 8, 2002, which referred to certain 2001 restated financial statement amounts. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of ODCP is responsible for complying with laws and regulations applicable to ODCP. As part of obtaining reasonable assurance about whether ODCP's financial statements are free of material misstatement, we performed tests of ODCP's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to ODCP. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether ODCP's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. The results of our tests disclosed no instances in which ODCP's financial management systems did not substantially comply with these three requirements.





This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2002